FX Viewpoint

Currencies
Global

Gold shinning in uncertainty, despite a firm USD

- Gold is likely to remain well supported in 2025 on a cocktail of fiscal, geopolitical, and trade risks
- Central banks' demand are also likely to remain strong, but a maturing rate-cutting cycle may be less supportive for gold
- Gold rallies may also be curbed by positive US real rates and a firm USD, alongside physical market dynamics

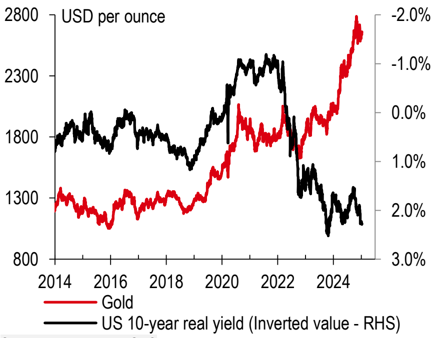
Gold prices are set to go higher over the near term, supported by fiscal, geopolitical, and trade risks…

Gold prices hit a record high of USD2,790 per ounce in October 2024, and remain over USD2,600 per ounce at the moment. Over the near- to medium-term, the uncertainty surrounding the policies of the incoming US administration, in particular trade policies, could boost gold prices. **Geopolitical risks could sustain gold prices at historically high levels.** Growing concerns over mounting fiscal deficits may keep gold prices at higher levels than would otherwise be the case. **Global public debt would exceed USD100trn or c93% of global GDP by the end of 2024** and **will approach 100% of GDP by 2030**, according to the International Monetary Fund's biannual publication "Fiscal Monitor" released on 23 October 2024.

…but it may soon become overstretched in the light of positive US real yields and a stronger USD

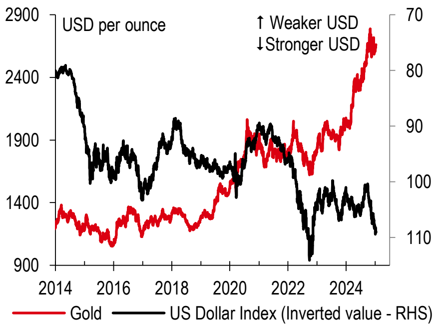
However, our precious metals analyst thinks that **there is a limit to how far gold prices may go.** Monetary policy, while currently supportive, may be less of a bullish input for gold as the monetary cycle progresses. In the US, gradual declines in inflation are still likely to leave real rates strongly positive, even in the light of rate cuts by the Federal Reserve. In our precious metals analyst's view, the relationship between US real rates and gold may be restored (Chart 1). In other words, **US real rates are likely to weigh on gold prices eventually.** Gold prices and the USD generally move inversely to each other (Chart 2). We expect **the broad USD to strengthen further in 2025** (*FX Viewpoint: USD on a firm footing (3 January 2025)*), **which may curb gold rallies.**

1. The relationship between US real yields and gold may resume



Source: Bloomberg, HSBC

2. A firm USD could weigh on gold



Source: Bloomberg, HSBC

In physical gold markets, high prices point to greater supply but weaker demand, in our precious metals analyst's opinion

Meanwhile, **gold may face headwinds from rising supply and weaker physical demand**, in our precious metals analyst's opinion. High gold prices are encouraging more gold mining output and additional recycling supply, while gold miners are facing mounting challenges (like environmental and regulatory constraints, and higher production costs). In the face of high gold prices, demand for gold jewellery and gold coins & bars may become weaker. **Central bank demand is also set to moderate especially when gold prices rally past USD2,800 per ounce; however, purchases may increase should gold prices correct.**

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